

ILLINOIS COMMERCE COMMISSION

OFFICIAL FILE

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ILLINOIS POWER EXHIBIT NO. 1.1
PREPARED DIRECT TESTIMONY OF WITNESS PHILLIP G. BREEZEEL

PHILLIP G. BREEZEEL DATE 10-3-00 REPORTER CB

JULY 7, 2000

ILLINOIS POWER COMPANY

I. INTRODUCTION AND WITNESS QUALIFICATIONS

1. Q. Please state your name and business address.

A. My name is Phillip G. Breezeel. My business address is 500 S. 27th Street, Decatur, IL 62525.

2. Q. What is your position with Illinois Power Company?

A. I am the Manager of Regulated Tariffs and Business Analysis in the Business Development Services Department.

3. Q. Please state your professional qualifications and business experience.

A. I received a Bachelor of Science Degree in Nuclear Engineering from the University of Missouri-Rolla in 1975. I also received a Master of Business Administration from Illinois State University in 1997. I was employed by the United States Energy Research and Development Administration's Pittsburgh Naval Reactor Operations Office from 1975 to 1977 as a Nuclear Power Engineer. I was employed by Illinois Power Company ("Illinois Power" or the "Company") in 1977 as an Assistant Engineer in the Generation Engineering Department, where I subsequently held positions of Engineer, Generation Engineer, Staff

24 Engineer, Project Engineer, and Supervising Engineer. I became a
25 Supervising Engineer in the Licensing and Safety Department in 1985. I
26 became Supervisor-Independent Safety Engineer Group in the Licensing
27 and Safety Department in 1986. I became Supervisor-Rate Planning in
28 the Rate Department in 1991. I became Manager of Corporate
29 Performance in 1998 in the Controller's Group. I became Manager of
30 Regulated Tariffs and Business Analysis in 2000 in the Business
31 Development Services Department.

32 While in the Rate Department and Business Development
33 Services, I have had direct and indirect responsibility for numerous
34 activities related to the regulation of the Company. I was the case
35 manager for the 1991 Electric Rate Case (Docket 91-0147) and the 1993
36 Gas Rate Case (Docket 93-0183). I was involved in the development
37 and negotiation of the Electric Service Customer Choice and Rate Relief
38 Law of 1997 (the "Customer Choice Act"). Most recently I had direct
39 responsibility for the Company's participation in Docket 00-0007
40 (Requirements governing the form and content of contract summaries
41 for the neutral fact-finder process for 2000 under Section 16-112(c) of
42 the Public Utilities Act).

43 4. Q. What are your duties and responsibilities as Manager of Regulated
44 Tariffs and Business Analysis?

45 A. I am responsible for all activities related to the bundled tariffs of the
46 Company as well as for performing a number of analyses of issues
47 facing the Company.

48 5. Q. In addition to IP Exhibit 1.1 which consists of prepared testimony, do
49 you sponsor other exhibits?

50 A. Yes, I sponsor IP Exhibits 1.2, 1.3, and 1.4. IP Exhibit 1.2 is a copy of
51 the Public Notice which appeared in newspapers having a general
52 circulation throughout the Company's service territory. IP Exhibit 1.3
53 contains a list of newspapers in which the Public Notice was published
54 and the dates of publication. IP Exhibit 1.4 is a copy of the notice that
55 was provided to customers for which the Company has a contractual
56 obligation to notify of potential tariff changes.

57 II. PURPOSE AND SCOPE

58 6. Q. What is the purpose of your testimony?

59 A. The principal purpose of my testimony is to provide a background for
60 why Illinois Power is proposing a Market Value Index ("MVI") as well
61 as to provide an overview of the Company's filing in this docket. I will
62 also testify concerning the notice given to the public by the Company
63 concerning the filing which is the subject of the proceeding.

64 III. BACKGROUND

65 7. Q. Are you familiar with the Neutral Fact Finder ("NFF") process as
66 provided in the Customer Choice Act?

67 A. Yes.

68 8. Q. Could you briefly describe the NFF process?

69 A. In general, each year an NFF is selected from a national public
70 accounting firm. Subject to certain exceptions, each electric utility and
71 each Alternative Retail Electric Supplier is required to submit to the
72 NFF a summary of each contract entered into after June 1, 1997, for
73 power and energy delivered in or into Illinois and/or power and energy
74 generated in Illinois or a contiguous state for one or more of the five
75 years succeeding the date of submission. For bundled contracts, the
76 price of power and energy reported to the NFF should be determined by
77 subtracting delivery service charges, transition charges, and charges for
78 services other than power and energy from the bundled contract price.
79 The NFF uses the reported summaries to determine a market price for
80 the next year or more, if the contract summaries submitted support the
81 determination of market price for more than one year.

82 9. Q. Would you care to comment on the current NFF process?

83 A. Yes. The current NFF process has been in place for two years. It has
84 not produced market values that are representative of the actual market.
85 For this reason, it should be replaced. In any event, the NFF process
86 was only intended to be an interim method until utilities implemented a
87 market value index. The NFF process is, by its very nature, flawed.

88 10. Q. Could you please describe what you mean when you say the NFF
89 process is flawed?

90 A. Yes. The NFF process is flawed in at least five areas: 1) The process
91 uses stale data; 2) The process has historically resulted in a single
92 market price for the entire state of Illinois; 3) Contract pricing can
93 distort any given year's value; 4) The number of contracts used to
94 determine the NFF values is extremely limited; and 5) NFF prices that
95 are not reflective of the actual market price distort customer transition
96 charge calculations.

97 11. Q. Please elaborate on each of these items.

98 A. **Stale Data**—The NFF process uses data that is at best months, and more
99 likely, years old to determine market prices. Only by pure luck could a
100 contract executed in 1997 contain prices for 2001 that in actuality are
101 reflective of the true market price in 2001.

102 **Single Market Price**—Historically, the NFF process has resulted in one
103 market price for the entire state of Illinois. As discussed by Mr. Peters
104 and Mr. Jones, the markets for Chicago are different than the markets
105 down state. To provide a single market price that averages the prices for
106 the two regions, results in a market price that is inaccurate for both
107 regions.

108 **Contract Price Distortion**—In a given, multi-year contract, the prices
109 reported for any specific year may or may not be reflective of the market
110 price for that year. For whatever reason, the parties to the contract may
111 have wanted to front-end or back-end load the contract. The extent to

112 which the contract was front-end or back-end loaded would distort the
113 price in a given year.

114 **Limited Number of Contracts**—The NFF values for 2000 were
115 determined from only 32 contracts. The usage associated with this
116 extremely small number of contracts cannot be representative of the
117 market in the entire State of Illinois. Only by happenstance could NFF
118 values determined with this small number of contracts be representative
119 of the actual market. Page one of the executive summary of the report of
120 the 1999 NFF (“1999 Neutral Fact-Finder’s Calculation of Market
121 Values for Electric Power and Energy for the State of Illinois,” dated
122 June 7, 1999) provides a discussion of just how limited the number of
123 contracts was. The executive summary states:

124 Market values were calculated for each of the
125 above categories based upon the 32 contract
126 summaries that were utilized by the neutral fact-
127 finder. One of the categories for which market
128 values were calculated included as few as three
129 contracts. Two of the categories included four
130 contracts. However, for one of these categories,
131 each of the four contracts was with the same
132 entity and had the same prices. Although the Act
133 requires the neutral fact-finder to calculate market
134 values for the year 2000, the neutral fact-finder
135 believes it would be inappropriate, given the
136 limited number of price observations, to ascribe
137 any relevance to the market values calculated by
138 the 1999 neutral fact-finder beyond those
139 conferred by the Act.

140
141 **Transition Charge Distortion**—If the NFF value is not the true market
142 value, it will distort the calculation of transition charges and will send
143 incorrect price signals to the customers. Since the NFF value is used in

144 the calculation of transition charges, if the NFF value is too high, the TC
145 will be too low and customers will have an unwarranted incentive to
146 shop. Having TCs too low may also preclude some customers from
147 taking the Power Purchase Option ("PPO") for which they might
148 otherwise be eligible if TCs were based on the proper market value.
149 Conversely, if the NFF value is too low, the TC will be too high and
150 some customers who should not be able to take the PPO will be able to
151 take it and customers will have less of an incentive to shop.
152 Furthermore, if the NFF value is too low, competition will be hindered.
153 Indeed, the latter is what has occurred thus far in Illinois.

154 12. Q. Have any other Illinois utilities requested approval for a market value
155 index?

156 A. Yes. Commonwealth Edison and Ameren have both requested approval
157 for a market value index. Commonwealth Edison's request was given
158 interim approval. Ameren's request is still pending.

159 13. Q. Can you provide the highlights of the Commonwealth Edison filing?

160 A. Yes. On March 31, 2000, Commonwealth Edison filed a petition, tariffs
161 and related documents to replace the NFF with a market value index
162 approach. Commonwealth's market values are set two times a year:
163 once for June-May using a full year snapshot and a second time for
164 September-May. The on-peak values are obtained by taking morning
165 and afternoon screen prints of activity on both Altrade and Bloomberg
166 PowerMatch for "into Commonwealth Edison" forward transactions (or

167 if there are no transactions for any given day, then bid-offer midpoints).
168 Data collection occurs for 20 days. Off-peak values are obtained from
169 historical day-ahead data. These values are then adjusted using an on-
170 peak scalar and an off-peak scalar, as applicable. Market Values, PPO
171 pricing and CTCs are set twice per year by informational filings with the
172 Commission presenting the results of the above calculations.

173 Under Commonwealth's approved plan, Commonwealth Edison
174 also offers to sell RESs full-requirements wholesale energy either at its
175 market index price (if taken for the period June 2000-May 2001) or at its
176 PPO price (if taken only from June 2000-Sept. 2000). Commonwealth
177 also included certain transitional choices for those already taking
178 delivery service from it on the date the new methodology became
179 effective.

180 As I noted above, the Commission approved Commonwealth's
181 proposal on an interim basis (Docket No. 00-0259). Commonwealth
182 Edison requested that its proposal be effective on or before May 1, 2000.
183 Although the Commission believed that the proposal would perform
184 better than the NFF process, it was concerned about the expedited
185 schedule, certain substantive issues raised by various intervenors and its
186 own authority to re-visit the tariffs. The Commission also ordered
187 further workshops so that all parties could consider possible
188 modifications and improvements to Commonwealth's proposal before
189 the 2001 summer period.

190 14. Q. Can you provide the highlights of the Ameren filing?

191 A. Yes. On May 31, 2000, Ameren filed a petition, tariffs and related
192 documents to replace the NFF with a market value index methodology
193 for both Central Illinois Public Service Company and Union Electric
194 Company (collectively, "Ameren"). Market values under the Ameren
195 proposal are also set twice per year (from June-May and from Sept.-
196 May). On-peak values are obtained by polling data twice per day
197 (morning and afternoon) for twenty days from both Altrade and
198 Bloomberg's PowerMatch for "into Cinergy" forward transactions (or if
199 no forward transactions occurred, then bid-offer midpoints). Off-peak
200 values are obtained from day-ahead historic data. Because the on-peak
201 values are "into Cinergy," Ameren applies a basis adjustment to
202 correlate the data to Southern MAIN values.

203 Ameren does not include a wholesale offer as part of its
204 proposal. And, it has requested that its tariffs become effective around
205 January 1, 2001 (with a final order preceding the effective date by at
206 least 90 days so that Ameren may make additional filings and prepare its
207 systems for the change).

208 15. Q. Is Illinois Power's filing similar to either of these two filings?

209 A. Yes. The Illinois Power filing is more similar to the Ameren filing than
210 to the Commonwealth Edison filing.

211 16. Q. What are the similarities and differences?

212 A. Both Ameren and Illinois Power propose using "into Cinergy" values
213 (with a Southern MAIN versus Cinergy basis adjustment) as the starting
214 point for the on-peak values. Commonwealth Edison uses "into
215 Commonwealth" values (without a basis adjustment) since those exist.
216 All three use both Altrade and Bloomberg's PowerMatch as data sources
217 for on-peak data, but IPC also includes a published survey. Both
218 Ameren's and Commonwealth's values are established only two times
219 per year, while IPC proposes monthly updates. Because of the
220 frequency of our updates, we are also proposing only a ten-day period
221 for collecting data and to make the data collection closer temporally to
222 the effective date of the new values. Unlike Commonwealth, neither
223 Ameren nor IPC is proposing to offer to sell energy at wholesale to
224 RESs based on the market values obtained from their calculations.
225 Finally, both Ameren and IPC are requesting that their market value
226 replacements be effective on or about January 1, 2001, with actual
227 implementation dates consistent with the need for an orderly transition.

228 17. Q. Why is Illinois Power requesting approval for a market value index?

229 A. Illinois Power believes that it is in the best interest of all parties to have
230 a market price set that is actually reflective of the price in the market
231 place. To the extent that the market price used in transition charge
232 calculations is not reflective of the price in the market place, either
233 customers or suppliers, or possibly some of each, are disadvantaged. In
234 light of the flaws in the NFF process discussed previously, the Company

235 believes that it is far more likely to obtain a truly representative market
236 price from a market value index rather than the NFF process.

237 In addition, the manpower required to provide the contract
238 summaries to the NFF is very burdensome. Once Commonwealth
239 Edison, Ameren, and Illinois Power have a market value index in place,
240 it may be possible to eliminate the NFF process and relieve this
241 manpower drain required to provide the contract summaries.

242 IV. OVERVIEW OF ILLINOIS POWER'S MVI FILING

243 18. Q. Could you briefly describe the Company's MVI filing?

244 A. Yes. The details of the MVI are provided by Mr. Peters and Mr. Jones.
245 For on-peak values, the MVI uses "into Cinergy" forward prices with a
246 basis adjustment to reflect the historical difference between Cinergy
247 prices and Southern Main prices. The Company intends to use a market
248 basket approach regarding data sources rather than trying to determine
249 the one best data source. The Company's filing proposes 3 data sources.
250 However, if there are other viable sources, we are certainly amenable to
251 including them in the market basket. For off-peak values, historic data
252 is used.

253 The MVI will be used to calculate transition charges monthly.
254 Once a customer chooses to take delivery service, the applicable
255 transition charge will then be in place for twelve months unless there is a
256 change to the transmission or delivery rate.

257 19. Q. Would approval of the MVI require any changes to the Company's
258 existing Rider TC?

259 A. Yes.

260 20. Q. Could you please describe those changes required in Rider TC?

261 A. Yes. A detailed discussion of the changes in Rider TC is provided by
262 Ms. Voiles. The intent is not to make any substantive changes to Rider
263 TC. The intent, rather, is to simply replace references to the NFF values
264 with the market value index. We are making changes to the DASR
265 process and monthly updates to be responsive to dynamics of the
266 market. We are also removing some of the appendices to streamline the
267 tariff. We have also changed Section 7(d) because current data does not
268 exist for the referenced source.

269 21. Q. Is the Company proposing changes to any other tariffs or riders at this
270 time?

271 A. Yes. The Company is proposing modifications to Rider PPO, Power
272 Purchase Option Service, Service Classification 110, Non-Residential
273 Delivery Services, and Service Classification 150, Services for
274 Customer Self-Managers and Retail Electric Suppliers.

275 22. Q. Please describe the changes to Rider PPO.

276 A. A detailed discussion of the changes in Rider PPO is provided by Ms.
277 Voiles. In Sections 1, 2 (b), and 5 (a) of the currently effective Rider
278 PPO, the reference to Appendix 5 has been changed to Appendix 2.
279 Also, in Sections 2 (b) and 5 (a), January 1 has been deleted to reflect

280 the methodology changes from NFF to Rider MVI. The definition of
281 Annual Period has been changed to be consistent with Rider TC. In
282 addition, language has been added to Section 5 (a) to insure that
283 customers receive the same market prices in Rider PPO as those used in
284 their respective transition charge calculations.

285 23. Q. Please describe the changes to SC 110 and SC 150

286 A. A detailed discussion of the changes in SC 110 and SC 150 is provided
287 by Ms. Voiles. The cancellation Direct Access Service Requests
288 ("DASRs") time requirement is being changed from the fifteenth
289 Business Day to the fifth Business Day. This change will allow
290 additional time for Customer Self-Managers or Retail Electric Suppliers
291 to evaluate the MVI information and issue cancellation DASRs if
292 needed.

293 24. Q. Did the Company meet with any interested parties regarding the
294 proposed filing prior to the filing being made?

295 A. Yes. The Company met with several parties to discuss the proposed
296 filing.

297 25. Q. Were any changes made to the proposed filing as a result of those
298 meetings?

299 A. Yes. It is our intent to make this filing a collaborative process. We have
300 tried and will continue to try to accommodate any reasonable
301 requests/concerns.

302 26. Q. Would the Company still entertain suggestions for improvements to the
303 filing?

304 A. Yes.

305 V. PUBLIC NOTICE

306 27. Q. Please describe the notice which the Company gave to the public
307 concerning this proceeding.

308 A. Notice of the Company's proposed Rider MVI, Market Value Index,
309 tariff filing was published in newspapers having a general circulation
310 throughout Illinois Power's electric service territory in the manner
311 specified by 83 Illinois Administrative Code 255.

312 28. Q. What is IP Exhibit 1.2?

313 A. IP Exhibit 1.2 is a copy of the Public Notice which appeared in
314 newspapers having a general circulation throughout the Company's
315 service territory.

316 29. Q. What is shown in IP Exhibit 1.3?

317 A. IP Exhibit 1.3 contains a list of newspapers in which the Public Notice
318 was published and the dates of publication. All of these newspapers
319 have been regularly published with general circulation in their respective
320 areas of the Company's service territory for at least six months prior to
321 the first publication of the notice.

322 30. Q. Did the Company give notice to any customers taking service under
323 individual contracts?

324 A. Yes. The Company is required by contract to advise certain customers
325 of any changes in the tariffs filed with the Commission which may affect
326 their billing for service. Copies of such notice for the customers in
327 question are included in IP Exhibit 1.4.

328 31. Q In addition to the notices referencing this proceeding, the notices also
329 reference revisions to Service Classification 110. Please explain.

330 A. A separate and unrelated tariff filing pertaining to Service Classification
331 110 was made a few days after the Company's proposed Rider MVI
332 tariff filing. The Company elected to combine the notice requirements
333 for both filings into the same notice for efficiency purposes.

334 32. Q Does this conclude your prepared direct testimony?

335 A. Yes, it does.